

UNITED STATES OF AMERICA
POSTAL REGULATORY COMMISSION
WASHINGTON, DC 20268-0001

Before Commissioners:

Robert G. Taub, Chairman;
Tony Hammond, Vice Chairman;
Mark Acton; and
Nanci E. Langley

Annual Compliance Report, 2017

Docket No. ACR2017

NOTICE OF POSTAL SERVICE'S FILING OF ANNUAL COMPLIANCE REPORT
AND REQUEST FOR PUBLIC COMMENTS

(Issued January 2, 2018)

I. INTRODUCTION

On December 29, 2017, the United States Postal Service (Postal Service) filed with the Commission its Annual Compliance Report (ACR) for fiscal year (FY) 2017, pursuant to 39 U.S.C. 3652.¹ Section 3652 requires submission of data and information on the costs, revenues, rates, and quality of service associated with postal products within 90 days of the closing of each fiscal year. In conformance with other statutory provisions and Commission rules, the ACR includes the Postal Service's FY 2017 Comprehensive Statement, its FY 2017 annual report to the Secretary of the Treasury on the Competitive Products Fund, and certain related Competitive Products Fund material. See *respectively*, 39 U.S.C. 3652(g), 39 U.S.C. 2011(i), and 39 CFR

¹ United States Postal Service FY 2017 Annual Compliance Report, December 29, 2017 (FY 2017 ACR). Public portions of the Postal Service's filing are available on the Commission's website at <http://www.prc.gov>.

3060.20–23. In line with past practice, some of the material in the FY 2017 ACR appears in non-public annexes.

The filing begins a review process that results in an Annual Compliance Determination (ACD) issued by the Commission to determine whether Postal Service products offered during FY 2017 were in compliance with applicable title 39 requirements.

II. OVERVIEW OF THE POSTAL SERVICE'S FY 2017 ACR

Contents of the filing. The Postal Service's FY 2017 ACR consists of a 77-page narrative; extensive additional material appended as separate folders and identified in Attachment One; and an application for non-public treatment of certain materials, along with supporting rationale, filed as Attachment Two. The filing also includes the Comprehensive Statement,² Report to the Secretary of the Treasury, and information on the Competitive Products Fund filed in response to Commission rules. This material has been filed electronically with the Commission, and some also has been filed in hard copy form.

Scope of the filing. The material appended to the narrative consists of: (1) domestic product costing material filed on an annual basis summarized in the Cost and Revenue Analysis (CRA); (2) comparable international costing material summarized in the International Cost and Revenue Analysis (ICRA); (3) worksharing-related cost studies; and (4) billing determinant information for both domestic and international mail. FY 2017 ACR at 2-3. Inclusion of these four data sets is consistent with the Postal Service's past ACR practices. As with past ACRs, the Postal Service has split certain materials into public and non-public versions. *Id.* at 3.

² In years prior to 2013, the Commission reviewed the Postal Service's reports prepared pursuant to 39 U.S.C. 2803 and 39 U.S.C. 2804 (filed as the Comprehensive Statement by the Postal Service) in its ACD. However, as it has for the past several years, the Commission intends to issue a separate notice soliciting comments on the comprehensive statement and provide its related analysis in a separate report from the ACD.

“Roadmap” document. A roadmap to the FY 2017 ACR can be found in Library Reference USPS-FY17-9. This document provides brief descriptions of the materials submitted, as well as the flow of inputs and outputs among them; a discussion of differences in methodology relative to Commission methodologies in last year’s ACD; and a list of special studies and a discussion of obsolescence, as required by Commission rule 3050.12. *Id.* at 3.

Methodology. The Postal Service states that it has adhered to the methodologies historically used by the Commission subject to changes identified and discussed in Library Reference USPS-FY17-9 and in prefaces accompanying the appended folders. *Id.* at 4. The Postal Service observes that one noteworthy methodological change regarding product costs was discussed by the Commission in Order No. 3506.³ Going forward, the Postal Service’s calculation of attributable costs will be changing to include a product’s inframarginal costs developed as part of the estimation of a product’s incremental costs. FY 2017 ACR at 4. As a consequence, the costs labeled as attributable costs in each row of the FY 2017 CRA are not directly comparable to costs reported with the same label in the CRAs filed prior to FY 2016. *Id.*

Market dominant product-by-product costs, revenues, and volumes. Comprehensive cost, revenue, and volume data for all market dominant products of general applicability are shown directly in the FY 2017 CRA or ICRA. *Id.* at 7.

The FY 2017 ACR includes a discussion by class of each market dominant product, including costs, revenues, and volumes, workshare discounts, and passthroughs responsive to 39 U.S.C. 3652(b), and FY 2017 incentive programs. *Id.* at 7-48.

³ *Id.*; see Docket No. RM2016-2, Order Concerning United Parcel Service, Inc.’s Proposed Changes to Postal Service Costing Methodologies (UPS Proposals One, Two, and Three), September 9, 2016 (Order No. 3506).

In response to the Commission's FY 2010 ACD directives,⁴ the Postal Service states that it is providing information regarding: (1) all operational changes designed to reduce flats costs and the estimated financial effects of such changes (*id.* at 25-31); (2) all costing methodology improvements made in FY 2017 and the estimated financial effects of such changes (*id.* at 31-35); and (3) a statement summarizing the historical and current year subsidy of the flats product (*id.* at 35). In addition, the Postal Service states that in the next general market dominant price change, it plans to increase the price of Standard Mail Flats by at least consumer price index times 1.05. *Id.* at 24. In the FY 2016 ACD, the Commission directed the Postal Service to submit an updated report analyzing how the removal of Flats Sequencing System pricing in Docket No. R2017-1 impacted the cost, contribution, and revenue of periodicals in FY 2017, and whether the removal improved the efficiency of Periodicals pricing in FY 2017.⁵ The Postal Service provides its updated report in Library Reference USPS-FY17-44. FY 2017 ACR at 39.

Market dominant negotiated service agreements. The FY 2017 ACR presents information on the PHI Acquisitions, Inc. negotiated service agreement (NSA), the only market dominant NSA in effect in FY 2017. *Id.* at 46-47.

Service performance. The Postal Service notes that the Commission issued rules on periodic reporting of service performance measurement and customer satisfaction in FY 2010. Responsive information appears in Library Reference USPS-FY17-29. *Id.* at 49.

Customer satisfaction. The FY 2017 ACR discusses the Postal Service's approach for measuring customer experience and satisfaction; describes the methodology; presents a table with survey results; compares the results from FY 2016

⁴ Docket No. ACR2010, Annual Compliance Determination, March 29, 2011, at 106-107 (FY 2010 ACD).

⁵ Docket No. ACR2016, Annual Compliance Determination, March 28, 2017, at 22 (FY 2016 ACD).

to FY 2017; and provides information regarding customer access to postal services. *Id.* at 54-65.

Competitive products. The FY 2017 ACR provides costs, revenues, and volumes for competitive products of general applicability in the FY 2017 CRA or ICRA. For competitive products not of general applicability, data are provided in non-public Library References USPS-FY17-NP2 and USPS-FY17-NP27. *Id.* at 66. The FY 2017 ACR also addresses the competitive product pricing standards of 39 U.S.C. 3633. *Id.* at 66-73. Additionally, the Postal Service responds to the Commission's Directive in the FY 2016 ACD requiring it to identify each NSA product that had no mailpieces shipped under its contract in future ACRs. FY 2016 ACD at 83. This information is provided in USPS-FY17-NP27 (for domestic NSAs) and USPS-FY17-NP2 (for international NSAs). *Id.* at 74.

Market tests; nonpostal services. The Postal Service discusses the two competitive market tests conducted during FY 2017 and nonpostal services. *Id.* at 75.

III. PROCEDURAL STEPS

Statutory requirements. Section 3653 of title 39 requires the Commission to provide interested persons with an opportunity to comment on the ACR and to appoint an officer of the Commission (Public Representative) to represent the interests of the general public. The Commission hereby solicits public comment on the Postal Service's FY 2017 ACR and on whether any rates or fees in effect during FY 2017 (for products individually or collectively) were not in compliance with applicable provisions of chapter 36 of title 39 or Commission regulations promulgated thereunder. Commenters addressing market dominant products are referred in particular to the applicable requirements (39 U.S.C. 3622(d) and (e) and 39 U.S.C. 3626); objectives (39 U.S.C. 3622(b)); and factors (39 U.S.C. 3622(c)). Commenters addressing competitive products are referred to 39 U.S.C. 3633.

The Commission also invites public comment on the cost coverage matters the Postal Service addresses in its filing; service performance results; levels of customer

satisfaction achieved; and such other matters that may be relevant to the Commission's review.

Access to filing. The Commission has posted the publicly available portions of the FY 2017 ACR on its website at <http://www.prc.gov>.

Comment deadlines. Comments by interested persons are due on or before February 1, 2018. Reply comments are due on or before February 12, 2018. The Commission, upon completion of its review of the FY 2017 ACR, comments, and other data and information submitted in this proceeding, will issue its ACD.

Public Representative. Mallory L. Smith is designated to serve as the Public Representative to represent the interests of the general public in this proceeding. Neither the Public Representative nor any additional persons assigned to assist her shall participate in or advise as to any Commission decision in this proceeding other than in his or her designated capacity.

IV. ORDERING PARAGRAPHS

It is ordered:

1. The Commission establishes Docket No. ACR2017 to consider matters raised by the United States Postal Service's FY 2017 Annual Compliance Report.
2. Pursuant to 39 U.S.C. 505, the Commission appoints Mallory L. Smith as an officer of the Commission (Public Representative) in this proceeding to represent the interests of the general public.
3. Comments on the United States Postal Service's FY 2017 Annual Compliance Report to the Commission are due on or before February 1, 2018.
4. Reply comments are due on or before February 12, 2018.

5. The Secretary shall arrange for publication of this Order in the *Federal Register*.

By the Commission.

Stacy L. Ruble
Secretary